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UNCLAS WARSAW 001396

SIPDIS

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E.O. 12958: N/A
TAGS: SENV ENRG ECON PREL PL EUN
SUBJECT: BRUSSELS CUTS TWO BILLION DOLLARS WORTH OF CO2 ALLOWANCES FROM POLAND'S NATIONAL ALLOCATION PLAN

Summary

¶1. (SBU) On March 8, the European Commission issued its much-delayed decision on national CO2 allotments under the EU's Emissions Trading Scheme. The EU conditionally accepted Poland's National Allocation Plan, but cut its proposed emissions by 16.5 percent (from 286 to 239 million tons). Although Poland expected the EC to shave its suggested allocation, it is angered by the depth of the cuts. The EU decision would shift Poland from being a net seller of CO2 credits to the rest of Europe to being a net buyer. Environment Ministry officials figure the decision will cost Poland $685 million per year from 2005-2007 in foregone revenues or additional expenses. The GOP is also upset that the EC did not dispute Poland's proposal on technical grounds, but rather made a political decision to boost allocations for under-performing West European emitters. As a result, Poland may choose not to participate in the EU's Emissions Trading Scheme, an option it feels it has. End summary.

Deep Cuts

¶2. (SBU) In September 2004 Poland submitted its National Allocation Plan for approval to the European Commission, a prerequisite for Polish CO2-emittting installations to participate in the EU's Emissions Trading Scheme. On March 8, 2005 the EU Commission approved Poland's participation, but ruled that it must cut CO2 emissions proposed under its National Allocation Plan by 16.5%. Specifically, the EU instructed Poland to cut its proposed allocation by 47 million tons, or from 286 million tons to 230.2 million for installations, with an additional 8.8 million tons to be held as a national reserve. The head of Poland's National Emission Centre, Krzysztof Oledrzynski, said the EU decision is "nonsense," because it requires Poland to reduce targeted CO2 emissions below the country's actual 2004 levels. (According to the Environment Ministry, Poland emitted 257.6 million tons of CO2 in 2002.)

Impact on Poland

¶3. (SBU) Polish officials estimate the 47 million ton annual reduction of CO2 credits for the 2005-2007 period will cost Poland $2.05 billion over three years (assuming a price of 11.20 EUR/$14.56 per ton). According to specialists at Ernst and Young, the allocations would be regarded as an intangible asset on an installation's balance sheet, an asset whose value the EC has now effectively reduced by 16.5%.

¶4. (U) If Poland accepts the EU Commission's conditions, many Polish companies will need to purchase allocations elsewhere or take measures to cut emissions. The EU cuts will affect private investors as well, reducing the ability of U.S. energy companies and others to sell credits. Several U.S. investors say they wanted to use income from the sale of allowances to finance environmental upgrades of their facilities in Poland in anticipation of the future, more expansive phase of the Emissions Trading Scheme in ¶2008. The Ministry of Economy had hoped to use some of the money from the sale of credits to foster investments in cleaner energy.

Poland May Opt Out

¶5. (SBU) On March 1, the chief negotiator from Poland's Ministry of Environment, Secretary of State Tomasz Podgajniak, told the press that Poland might opt out of the European Emissions Trading Scheme altogether. Jacek Mizak from the Environment Ministry's International Cooperation Department said that although the EU established the Emissions Trading Scheme by directive, Poland views the directive as a tool to meet Kyoto targets. Since Poland already has met its Kyoto obligation, non-compliance with the directive is a legal option. Wojciech Jaworski, the director of the Environmental Protection Instruments Department at the Ministry of Environment, explained that if Poland does not participate in the Emissions Trading Scheme, the country as a whole would still be able to trade CO2 credits with other European countries, albeit through a more labor-intensive process as outlined in the Kyoto protocol. However, individual installations could not directly buy or sell credits on the EU market.

Tough Negotiations in Brussels

¶6. (SBU) Oledrzynski, who was a member of Poland's negotiating team in Brussels, said negotiations with the EU Commission were difficult, as the Commission did not consider seriously Poland's arguments. The EU side did not have any experts and did not question any of the technical aspects of the Polish National Allocation Plan. Instead, the EU seemed to only take political factors into consideration. Jaworski also criticized the negotiations, saying Brussels was more interested in ensuring that an influx of Polish allowances would not reduce the price of CO2 credits than in reviewing Poland's National Allocation Plan according to scientific and technical criteria.

Higher Prices for CO2 Credits in Europe?

¶7. (SBU) Oledrzynski expects the cut in Poland's allocation to drive up prices in the Emissions Trading Scheme throughout Europe, since it would remove a large supply of excess allocations. Jaworski said the price of a ton of CO2 already has risen 15% (from 9.7 to 11.2 EURO/ton), since the EU announcement of its conditional acceptance of Poland's National Allocation Plan. Oledrzynski believes Poland would have been the lead seller of allocations in Europe. Now its industrial installations will need to purchase credits if it participates. Jacek Mizak at the Environment Ministry said that the Ministry was mistakenly under the impression that the new EU-10 would profitably supply allocation credits for many of the EU-15 that find it overly costly to meet their Kyoto obligations.

Next Steps

¶8. (U) Poland now faces three options: suing the Commission at the European Court of Justice, which Oledrzynski privately described as having "a remote chance of succeeding;" putting the matter to the European Council in an attempt to overrule the Commission; or pulling out of the scheme altogether.

Comment

¶9. (SBU) Poland knows it faces enormous challenges in meeting EU environmental standards over the next decade. Thanks to a massive restructuring of its economy in the early 1990s, which reduced CO2 emissions by 32% from 1988-2001, Poland had hoped carbon emissions would be the one area in which it could make a fast start. With the stroke of a pen, the EC seems to have destroyed that hope. So far our GOP contacts have not indicated any willingness to accept the EU Commission's conditions. We expect the GOP will fight hard over this issue, given the significant amount of money involved.

Munter

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